

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF HASTINGS	County BARRY
Fiscal Year End JUNE 30, 2006	Opinion Date SEPTEMBER 8, 2006	Date Audit Report Submitted to State NOVEMBER 8, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☒ ☐ The local unit is free of repeated comments from previous years.
- ☒ ☐ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>	NONE		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 616-975-4100		
Street Address 2330 EAST PARIS AVENUE SE		City GRAND RAPIDS	State MI	Zip 49546
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801



**CITY OF HASTINGS**  
**HASTINGS, MICHIGAN**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

# CITY OF HASTINGS

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# REHMANN ROBSON

*Certified Public Accountants*

*A member of* THE REHMANN GROUP

An Independent Member of Baker Tilly International

## INDEPENDENT AUDITORS' REPORT

September 8, 2006

Honorable Mayor and  
Members of the City Council  
City of Hastings, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hastings, Michigan (the "City"), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Hastings, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hastings, Michigan as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and Library special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 8, 2006, on our consideration of the City of Hastings' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hastings' basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Hastings' basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## Management's Discussion and Analysis

As management of the City of Hastings, we offer readers of the City of Hastings' financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- The City's total net assets increased to \$20,669,290 at the end of the current fiscal compared to \$19,269,025 at the end of the prior period. Net assets of governmental activities (including the internal service funds) increased by \$1,126,517, largely due to capital projects, some of which had significant funding from external grant sources. Net assets of business-type activities increased by \$273,748.
- During the year, the City's revenues were \$8,110,893, an increase of \$229,520 (2.9%) over the prior year. The City's expenses also increased, by \$214,663 (3.3%) to \$6,710,628. Revenues exceeded expenses for the year by \$1,400,265.
- The City continues to rapidly increase its investment earnings by carefully managing cash to ensure that the maximum amount possible is invested at interest and by seeking new investment partners and vehicles to optimize return (consistent with security of principal). Investment earnings increased from \$83,870 in the prior year to \$283,231 in the current year. This follows a substantial increase reported last year over the next previous year.
- In the General Fund, expenditures and outgoing transfers exceeded revenues, incoming transfers, and other financing sources by \$226,644, reducing the fund balance from \$996,486 to \$769,842.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Hastings' financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Hastings that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, police and fire services, public works including major and local street maintenance and recreation and cultural activities. The business-type activities of the City include sewer and water services and a business incubator program. The government-wide financial statements include not only the City of Hastings itself (known as the *primary government*), but also a legally separate Downtown Development Authority and Local Development Finance Authority for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-15 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Hastings, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the



government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and library funds, each of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 16-21 of this report.

***Proprietary funds.*** The City of Hastings maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Hastings uses enterprise funds to account for its sewer and water and business incubator operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses the internal service fund to account for its fleet of vehicles and accounting for administrative services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water and business incubator operations, both of which are considered to be major funds of the City of Hastings.

The basic proprietary fund financial statements can be found on pages 22-24 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 25 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-40 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 41-53 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Hastings, assets exceeded liabilities by \$20,669,290 at the close of the most recent fiscal year.

One of the larger portions of the City's net assets reflects unrestricted net assets which are available for future operation while a significant portion of net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The table below summarizes the components of the City's net assets for the current and prior fiscal years.

#### City of Hastings Net Assets

	Governmental Activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$3,876,525	\$4,471,124	\$2,888,421	\$2,335,154	\$6,764,946	\$6,806,278
Capital assets	\$6,765,670	\$5,294,020	\$11,209,382	\$11,726,076	\$17,975,052	\$17,020,096
Total assets	<u>\$10,642,195</u>	<u>\$9,765,144</u>	<u>\$14,097,803</u>	<u>\$14,061,230</u>	<u>\$24,739,998</u>	<u>\$23,826,374</u>
Long-term liabilities	\$1,030,656	\$987,410	\$2,539,093	\$2,544,557	\$3,569,749	\$3,531,967
Other liabilities	\$359,284	\$651,996	\$141,675	\$373,386	\$500,959	\$1,025,382
Total liabilities	<u>\$1,389,940</u>	<u>\$1,639,406</u>	<u>\$2,680,768</u>	<u>\$2,917,943</u>	<u>\$4,070,708</u>	<u>\$4,557,349</u>
Net assets:						
Invested in capital assets, net of related debt	\$5,701,316	\$4,447,946	\$8,649,382	\$8,535,180	\$14,350,698	\$12,983,126
Restricted	\$2,461,172	\$1,795,047	\$-	\$1,111,776	\$2,461,172	\$2,906,823
Unrestricted	\$1,089,767	\$1,882,745	\$2,767,653	\$1,496,331	\$3,857,420	\$3,379,076
Total net assets	<u>\$9,252,255</u>	<u>\$8,125,738</u>	<u>\$11,417,035</u>	<u>\$11,143,287</u>	<u>\$20,669,290</u>	<u>\$19,269,025</u>

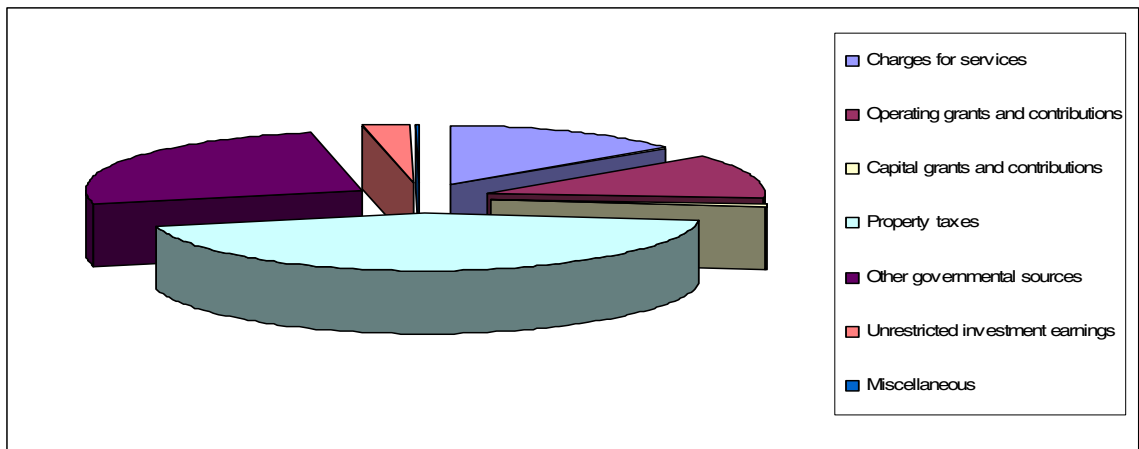
Net assets of the City increased by \$1,400,265 with both governmental and business-type activities showing additions to prior balances. The business-type activities increase in net assets of \$273,748 was the result of steady revenues from operations, careful management of expenses, and an increase in investment income. The governmental activities increase in net assets of \$1,126,517 was primarily the result of increasing property tax revenues, increasing investment income, careful management of all expenses, and accumulating restricted resources for the construction of the new library.

<b>City of Hastings Changes in Net Assets</b>						
	<b>Governmental Activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Revenue:						
Program revenue:						
Charges for services	\$839,276	\$621,446	\$2,030,796	\$2,075,831	\$2,870,072	\$2,697,277
Operating grants and contributions	\$722,765	\$300,422			\$722,765	\$300,422
Capital grants and contributions	\$42,903	\$619,026	\$20,553	\$66,840	\$63,456	\$685,866
General revenue:					\$-	\$-
Property taxes	\$2,590,356	\$2,496,494			\$2,590,356	\$2,496,494
Other governmental sources	\$1,512,840	\$1,295,468			\$1,512,840	\$1,295,468
Unrestricted investment earnings	\$175,799	\$41,395	\$107,432	\$52,475	\$283,231	\$93,870
Miscellaneous	\$(47,441)	\$206,547	\$115,614	\$105,429	\$68,173	\$311,976
Total revenue	<u>\$5,836,498</u>	<u>\$5,580,798</u>	<u>\$2,274,395</u>	<u>\$2,300,575</u>	<u>\$8,110,893</u>	<u>\$7,881,373</u>
Expenses:						
General government	\$264,462	\$169,436			\$264,462	\$169,436
Public safety	\$2,474,090	\$2,286,457			\$2,474,090	\$2,286,457
Public works	\$693,647	\$788,304			\$693,647	\$788,304
Recreation and cultural	\$1,177,632	\$673,644			\$1,177,632	\$673,644
Community and economic development	\$46,337	\$581,822			\$46,337	\$581,822
Interest on long-term debt	\$53,814				\$53,814	
Water & Sewer			\$1,809,540	\$1,839,919	\$1,809,540	\$1,839,919
Business Incubator			\$191,107	\$156,383	\$191,107	\$156,383
Total expenses	<u>\$4,709,981</u>	<u>\$4,499,663</u>	<u>\$2,000,647</u>	<u>\$1,996,302</u>	<u>\$6,710,628</u>	<u>\$6,495,965</u>
<b>Change in net assets</b>	<b>\$1,126,517</b>	<b>\$1,081,135</b>	<b>\$273,748</b>	<b>\$304,273</b>	<b>\$1,400,265</b>	<b>\$1,385,408</b>
Net assets - beginning of year	\$8,125,738	\$7,044,603	\$11,143,287	\$10,839,014	\$19,269,025	\$17,883,617
<b>Net assets - end of year</b>	<b><u>\$9,252,255</u></b>	<b><u>\$8,125,738</u></b>	<b><u>\$11,417,035</u></b>	<b><u>\$11,143,287</u></b>	<b><u>\$20,669,290</u></b>	<b><u>\$19,269,025</u></b>

## Governmental Activities Revenue

Total governmental revenue increased by \$255,700. Property tax revenue increased due to increasing taxable values, grants and contributions revenue declined, general state revenue sharing was stagnant, investment income quadrupled (increasing \$134,404).

### Governmental Activities Revenues by Source (FYE June 30, 2006)

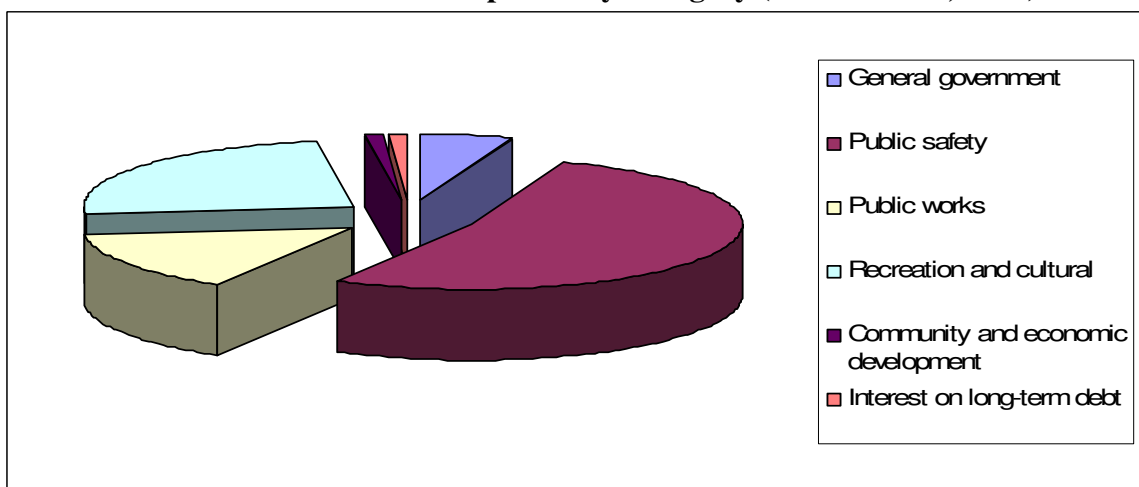


### Governmental Activities Expenses

Total governmental expenses increased \$210,318. Increases relate to cost of living increases in wages and most benefits, larger increases in health insurance for active employees and retirees, and variations in levels of program activity, for example, the beginning of active construction of the new library building increased related expenses. Because the overall increase in total expenses for governmental activities was moderate (about 4.6% of prior year expense), the City's efforts to manage, monitor, and control its costs were evidently successful.

During the year, the City continued its emphasis in public safety by investing \$2,474,090, or 52.5% of governmental activities expenses. Recreation and cultural services was \$1,177,632 or 25.0% of governmental activities expenses. A significant portion of this sum represents investment in the construction of the new library building. The combination of general government, public works, community and economic development, and interest on long-term debt made up the remaining \$1,058,260 or 22.5% of governmental activities expenses.

### Governmental Activities Expenses by Category (FYE June 30, 2006)



## **Business-Type Activities**

The City's business-type activities include the Water and Sewer System and a Business Incubator. Revenue of the business-type activities was \$2,274,395 (a modest decrease of \$26,180 from the prior year). Revenue for the Water & Sewer System increased, while revenue for the Business Incubator declined quite sharply. Charges for service revenue declined moderately, grants and contributions declined more significantly, investment income doubled. Expenses were \$2,000,647 (a negligible increase of \$4,345 from the prior year). Net income from business-type activities was \$273,748 (a modest decrease of \$30,525 from the prior year).

## **Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

***Governmental funds.*** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of about \$3.2 million, an increase of about \$400,000 in comparison with the prior year. Approximately 30 percent of this total amount (about \$940,000) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) for prepaid items (about \$20,000), 2) for inventory replacement (about \$5,000), 3) for library funding (about \$1.9 million), and 4) for specific purposes of special revenue funds (about \$297,000).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$749,599, while total fund balance was \$769,842. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures.

Unreserved fund balance represents about 17% percent of total general fund expenditures and transfers out.

The fund balance of the City's general fund decreased by \$226,644 during the current fiscal year. This is primarily attributable to planned, budgeted spending in excess of current revenue.

The library fund has a total fund balance of \$2,099,937, which increased by \$411,520 during the year. This is primarily attributable to the accumulation of assets reserved for the construction of the new library building.

***Proprietary funds.*** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Net assets of the sewer and water and business incubator funds at the end of the year amounted to \$10,791,748 and \$625,287, respectively. The sewer and water fund had an increase in net assets for the year of \$278,704, whereas the business incubator fund had a decrease of \$4,956. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

### **Budgetary Highlights**

Differences between the original and final amended budgets for expenditures were relatively minor for the year. Budget amendments enacted during the year focused on grant funding for capital acquisitions for the fire department and election equipment, projects in most funds that had been planned but not completed in the prior fiscal year (resources being re-appropriated to complete the projects in the current year), and the implementation of active construction of the new library building.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounted to \$17,570,736 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment. Infrastructure investments included in the total have only been added since 2003. The City's investment in capital assets for the current fiscal year increased approximately 6.2 percent.

Major capital asset events during the current fiscal year included the following:

- Governmental activities
  - Infrastructure additions and improvements of approximately \$800,000
  - Acquisition of new police and fire vehicles of approximately \$100,000
  - Construction in progress on the new library building of approximately \$370,000
  - Equipment fund acquisitions of approximately \$100,000
  - Improvements to networks and technology of approximately \$45,000
- Business-type activities
  - Water delivery system improvements of approximately \$43,000
  - Sewer disposal system improvements of approximately \$60,000
  - Construction in progress on water delivery system improvements of approximately \$160,000
  - Water & Sewer fund equipment acquisitions of approximately \$15,000

**City of Hastings Capital Assets**  
(net of depreciation)

	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Land	\$1,367,783	\$1,367,783	\$119,200	\$119,200	\$1,486,983	\$1,486,983
Infrastructure	\$1,439,869	\$580,746	\$5,091,207	\$4,990,866	\$6,531,076	\$5,571,612
Buildings and system improvements	\$2,205,643	\$1,973,053	\$5,573,962	\$5,814,549	\$7,779,605	\$7,787,602
Vehicles and equipment	\$1,348,059	\$1,266,364	\$425,013	\$427,631	\$1,773,072	\$1,693,995
<b>Total</b>	<b>\$6,361,354</b>	<b>\$5,187,946</b>	<b>\$11,209,382</b>	<b>\$11,352,246</b>	<b>\$17,570,736</b>	<b>\$16,540,192</b>

Additional information on the City of Hastings capital assets can be found in Note 5 on pages 35-36 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$3,568,749. Of this amount, \$2,539,093 was debt of business-type activities and \$1,029,656 was debt of governmental activities.

**City of Hastings General Obligation and Revenue Bonds**

	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Accrued employee benefits	\$364,656	\$322,410	\$23,336	\$28,801	\$387,992	\$351,211
Notes	\$665,000	\$740,000			\$665,000	\$740,000
Bonds			\$2,515,757	\$2,817,066	\$2,515,757	\$2,817,066
<b>Total</b>	<b>\$1,029,656</b>	<b>\$1,062,410</b>	<b>\$2,539,093</b>	<b>\$2,845,867</b>	<b>\$3,568,749</b>	<b>\$3,908,277</b>

The City's total debt decreased by \$339,528 (8.9 percent) during the current fiscal year. Payments reducing principal on installment notes and bonds, were offset by an increase in accrued employee benefits.

The City refunded \$2,505,000 of 1997 Water & Sewer Revenue Bonds during the fiscal year. This transaction resulted in an economic gain of \$117,754 reflected in net interest savings over the remaining life of the new bonds.

The City is currently not rated for general obligation bond issuance.

Additional information on the City's long-term debt can be found in Note 10 on pages 38-39 of this report.

**Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2006-2007 fiscal year:

- The City strives to continue to provide a comprehensive array of services to its citizens. One continuing tenant of budget development is to attempt to maintain the existing variety and level of service. The City examines all functions within the budget for opportunities to improve productivity and efficiency – delivering equal and better service for lower cost.

- Wages and most benefits are expected to continue to increase at approximately the rate of general inflation.
- The cost of health benefits for current employees and retirees continues to grow at a faster pace than City revenues. The City attempts to address this issue with a premium sharing arrangement with employees (the employees pay a portion of all cost increases) and with modest benefit adjustments (such as increasing co-payments for prescription drugs). The 2006-2007 budget anticipates the continuation of recent trends.
- The budget for the coming fiscal year anticipates maintenance of state revenue sharing at current levels. The general condition of the state's economy, as well as a ballot proposition increasing the share of the state's resources required to be dedicated to K-16 education and the outcome of elections for governor and state legislators, have the potential to affect the validity of that assumption.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 201 E. State Street, Hastings, Michigan 49058.



# CITY OF HASTINGS

## Statement of Net Assets

June 30, 2006

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority	Local Development Finance Authority
<b>Assets</b>					
Cash and pooled investments	\$ 1,667,571	\$ 1,247,721	\$ 2,915,292	\$ 204,367	\$ 56,148
Receivables:					
Accounts	6,115	259,121	265,236	33,211	-
Taxes	15,749	-	15,749	-	-
Special assessments	57,885	24,238	82,123	-	-
Restricted cash and investments	1,909,857	937,020	2,846,877	-	-
Due from other governmental units	456,853	-	456,853	-	-
Internal balances	(346,281)	346,281	-	-	-
Inventory	5,719	70,436	76,155	-	-
Prepaid items	103,057	3,604	106,661	-	-
Investment in joint venture	399,354	-	399,354	-	-
Land	1,367,783	119,200	1,486,983	-	-
Construction in progress	441,847	162,651	604,498	-	-
Property, plant and equipment, net of accumulated depreciation	4,556,686	10,927,531	15,484,217	-	-
<b>Total assets</b>	<b>10,642,195</b>	<b>14,097,803</b>	<b>24,739,998</b>	<b>237,578</b>	<b>56,148</b>
<b>Liabilities</b>					
Accounts payable	288,103	109,849	397,952	144,625	865
Other accrued liabilities	36,396	7,568	43,964	-	-
Deposits	28,545	3,264	31,809	-	-
Accrued interest	7,240	20,994	28,234	-	-
Noncurrent liabilities:					
Compensated absences	364,656	23,336	387,992	-	-
Current portion of bonds payable	80,000	335,000	415,000	-	-
Bonds payable, net of current portion	585,000	2,180,757	2,765,757	-	-
<b>Total liabilities</b>	<b>1,389,940</b>	<b>2,680,768</b>	<b>4,070,708</b>	<b>144,625</b>	<b>865</b>
<b>Net assets</b>					
Invested in capital assets, net of related debt	5,701,316	8,649,382	14,350,698	-	-
Restricted for:					
Major streets	180,181	-	180,181	-	-
Local streets	131,760	-	131,760	-	-
Library	190,080	-	190,080	-	-
Library memorial fund	39,997	-	39,997	-	-
Library capital campaign	1,869,860	-	1,869,860	-	-
Drug enforcement	39,124	-	39,124	-	-
Police training	10,170	-	10,170	-	-
Unrestricted	1,089,767	2,767,653	3,857,420	92,953	55,283
<b>Total net assets</b>	<b>\$ 9,252,255</b>	<b>\$ 11,417,035</b>	<b>\$ 20,669,290</b>	<b>\$ 92,953</b>	<b>\$ 55,283</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF HASTINGS

## Statement of Activities

For the Year Ended June 30, 2006

	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government</b>					
Governmental activities:					
General government	\$ 264,462	\$ 130,120	\$ -	\$ 42,903	\$ (91,439)
Public safety	2,474,090	338,018	7,705	-	(2,128,367)
Public works	693,647	13,142	(10,474)	-	(690,979)
Recreation and cultural	1,177,632	323,484	724,034	-	(130,114)
Community and economic development	46,337	34,512	1,500	-	(10,325)
Interest on long-term debt	53,814	-	-	-	(53,814)
Total governmental activities	4,709,981	839,276	722,765	42,903	(3,105,037)
Business-type activities:					
Sewer/water	1,809,540	1,974,407	-	20,553	185,420
Business incubator	191,107	56,389	-	-	(134,718)
Total business-type activities	2,000,647	2,030,796	-	20,553	50,702
Total primary government	\$ 6,710,628	\$ 2,870,072	\$ 722,765	\$ 63,456	\$ (3,054,335)
<b>Component units</b>					
Downtown Development Authority	\$ 1,004,861	\$ -	\$ -	\$ 260,000	\$ (744,861)
Local Development Finance Authority	2,664	-	-	-	(2,664)
Total component units	\$ 1,007,525	\$ -	\$ -	\$ 260,000	\$ (747,525)

(Continued)

The accompanying notes are an integral part of these financial statements.

# CITY OF HASTINGS

## Statement of Activities (Concluded)

**For the Year Ended June 30, 2006**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority	Local Development Finance Authority
<b>Changes in net assets</b>					
Net (expense) revenue	\$ (3,105,037)	\$ 50,702	\$ (3,054,335)	\$ (744,861)	\$ (2,664)
General revenues:					
Property taxes	2,590,356	-	2,590,356	451,697	12,310
Other governmental sources	1,512,840	-	1,512,840	-	-
Unrestricted investment earnings	175,799	107,432	283,231	10,838	2,235
Miscellaneous	65,380	2,793	68,173	33,861	-
Transfers	(112,821)	112,821	-	-	-
Total general revenues and transfers	4,231,554	223,046	4,454,600	496,396	14,545
Change in net assets	1,126,517	273,748	1,400,265	(248,465)	11,881
Net assets, beginning of year	8,125,738	11,143,287	19,269,025	341,418	43,402
<b>Net assets, end of year</b>	<u>\$ 9,252,255</u>	<u>\$ 11,417,035</u>	<u>\$ 20,669,290</u>	<u>\$ 92,953</u>	<u>\$ 55,283</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF HASTINGS

## Balance Sheet Governmental Funds

**June 30, 2006**

	General Fund	Library	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 580,661	\$ 197,676	\$ 268,992	\$ 1,047,329
Restricted cash and investments	-	1,909,857	-	1,909,857
Receivables:				
Accounts	4,474	-	-	4,474
Taxes	15,749	-	-	15,749
Special assessments	-	-	57,885	57,885
Due from other governmental units	263,678	4,725	182,084	450,487
Inventory	-	-	5,719	5,719
Prepaid items	20,243	157	-	20,400
<b>Total assets</b>	<b>\$ 884,805</b>	<b>\$ 2,112,415</b>	<b>\$ 514,680</b>	<b>\$ 3,511,900</b>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 31,290	\$ 7,987	\$ 152,791	\$ 192,068
Accrued liabilities	23,883	4,491	654	29,028
Due to other funds	6,662	-	-	6,662
Advance from other funds	24,583	-	-	24,583
Deferred revenue	-	-	57,885	57,885
Deposits	28,545	-	-	28,545
<b>Total liabilities</b>	<b>114,963</b>	<b>12,478</b>	<b>211,330</b>	<b>338,771</b>
<b>Fund balances</b>				
Reserved:				
Inventory	-	-	5,719	5,719
Prepaid items	20,243	157	-	20,400
Memorial fund	-	39,997	-	39,997
Capital campaign	-	1,869,860	-	1,869,860
Unreserved:				
Reported in nonmajor special revenue funds	-	-	297,631	297,631
Undesignated	749,599	189,923	-	939,522
<b>Total fund balances</b>	<b>769,842</b>	<b>2,099,937</b>	<b>303,350</b>	<b>3,173,129</b>
<b>Total liabilities and fund balances</b>	<b>\$ 884,805</b>	<b>\$ 2,112,415</b>	<b>\$ 514,680</b>	<b>\$ 3,511,900</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF HASTINGS

## Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2006

Fund balances- total governmental funds	\$ 3,173,129
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Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the funds.

Add - land	1,156,083
Add - capital assets	3,917,051
Deduct - accumulated depreciation	(1,087,007)

Certain assets, such as special assessments receivable are not due and receivable in  
the current period and therefore are offset with deferred revenue in the fund  
statements.

Add - deferred special assessments receivable	57,885
---	--------

An internal service fund is used by management to charge the costs of certain  
activities, such as insurance and other centralized costs, to individual funds. The  
assets and liabilities of the internal service fund are included in governmental  
activities.

Add - net assets of governmental activities accounted for in the internal service fund	1,848,461
--	-----------

The government's investment in its joint venture is not a financial resource, and  
therefore not reported in the funds.

Add - investment in joint venture	399,354
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Certain liabilities, such as compensated absences, are not due and payable in the  
current period and therefore are not reported in the funds.

Deduct - compensated absences	<u>(212,701)</u>
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Net assets of governmental activities	<u><u>\$ 9,252,255</u></u>
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The accompanying notes are an integral part of these financial statements.

# CITY OF HASTINGS

## Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2006

	General Fund	Library	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 2,590,356	\$ -	\$ -	\$ 2,590,356
Special assessments	-	-	8,591	8,591
Licenses and permits	5,389	-	-	5,389
Intergovernmental revenue:				
Local	203,667	1,001,921	2,543	1,208,131
State	768,980	9,414	532,279	1,310,673
Federal	48,065	-	98,526	146,591
Charges for services	422,050	5,998	26,146	454,194
Fines and forfeitures	13,932	39,349	-	53,281
Rentals	61,529	-	-	61,529
Interest	64,767	70,823	18,219	153,809
Other	15,659	3,349	4,687	23,695
Total revenues	4,194,394	1,130,854	690,991	6,016,239
<b>Expenditures</b>				
Current:				
General government	254,715	-	-	254,715
Public safety	2,634,794	-	6,712	2,641,506
Public works	-	-	841,939	841,939
Community and economic development	694,429	-	-	694,429
Recreation and cultural	147,342	1,000,761	329,500	1,477,603
Total expenditures	3,731,280	1,000,761	1,178,151	5,910,192
Revenues over (under) expenditures	463,114	130,093	(487,160)	106,047
<b>Other financing sources (uses)</b>				
Transfers in	16,941	281,427	357,676	656,044
Transfers (out)	(742,886)	-	(25,979)	(768,865)
Sale of capital assets	36,187	-	-	36,187
Total other financing sources (uses)	(689,758)	281,427	331,697	(76,634)
Net change in fund balances	(226,644)	411,520	(155,463)	29,413
Fund balances, beginning of year	996,486	1,688,417	458,813	3,143,716
<b>Fund balances, end of year</b>	<b>\$ 769,842</b>	<b>\$ 2,099,937</b>	<b>\$ 303,350</b>	<b>\$ 3,173,129</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF HASTINGS

## Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 29,413
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	1,412,500
Deduct - depreciation expense	(194,621)
Deduct - proceeds from sale of capital assets	(36,187)
Deduct - gain (loss) on sale of assets	(12,118)

Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements.

Deduct - decrease in deferred special assessments receivable	(130,595)
--	-----------

The City's investment in its joint venture is not a financial resource, and therefore not reported in the funds.

Deduct - decrease in value of investment in joint venture	(80,550)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - net income from internal service funds	168,014
Deduct - increase in the accrual for compensated absences	(29,339)

Change in net assets of governmental activities	<u>\$ 1,126,517</u>
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The accompanying notes are an integral part of these financial statements.

# CITY OF HASTINGS

## General Fund Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Taxes	\$ 2,630,038	\$ 2,630,038	\$ 2,590,356	\$ (39,682)
Licenses and permits	4,000	4,000	5,389	1,389
Intergovernmental revenue:				
Local	202,167	203,667	203,667	-
State	746,500	748,500	768,980	20,480
Federal	132,000	216,581	48,065	(168,516)
Charges for services	430,607	428,187	422,050	(6,137)
Fines and forfeitures	20,000	20,000	13,932	(6,068)
Rentals	58,000	58,000	61,529	3,529
Interest	25,000	35,000	64,767	29,767
Other	4,500	10,722	15,659	4,937
<b>Total revenues</b>	<b>4,252,812</b>	<b>4,354,695</b>	<b>4,194,394</b>	<b>(160,301)</b>
<b>Expenditures</b>				
General Government:				
City Council	58,074	58,074	60,822	2,748
Elections	15,500	34,519	45,472	10,953
Assessor	168,907	168,907	148,421	(20,486)
<b>Total general government</b>	<b>242,481</b>	<b>261,500</b>	<b>254,715</b>	<b>(6,785)</b>
Public safety:				
Police	1,708,886	1,761,886	1,812,648	50,762
Fire	766,796	801,430	822,146	20,716
<b>Total public safety</b>	<b>2,475,682</b>	<b>2,563,316</b>	<b>2,634,794</b>	<b>71,478</b>
Community and economic development:				
Community promotion	439,809	475,074	477,862	2,788
Economic development	198,890	211,889	179,025	(32,864)
Parking enforcement	41,900	41,900	37,542	(4,358)
<b>Total community and economic development</b>	<b>680,599</b>	<b>728,863</b>	<b>694,429</b>	<b>(34,434)</b>
<b>Total recreation and cultural</b>	<b>253,037</b>	<b>306,537</b>	<b>147,342</b>	<b>(159,195)</b>
<b>Total expenditures</b>	<b>3,651,799</b>	<b>3,860,216</b>	<b>3,731,280</b>	<b>(128,936)</b>
<b>Revenue over (under) expenditures</b>	<b>601,013</b>	<b>494,479</b>	<b>463,114</b>	<b>(31,365)</b>
<b>Other financing sources (uses)</b>				
Transfers in	16,941	16,941	16,941	-
Transfers (out)	(632,949)	(751,057)	(742,886)	8,171
Proceeds on sale of capital assets	8,000	8,000	36,187	28,187
<b>Total other financing sources (uses)</b>	<b>(608,008)</b>	<b>(726,116)</b>	<b>(689,758)</b>	<b>36,358</b>
<b>Net change in fund balances</b>	<b>(6,995)</b>	<b>(231,637)</b>	<b>(226,644)</b>	<b>4,993</b>
<b>Fund balances, beginning of year</b>	<b>996,486</b>	<b>996,486</b>	<b>996,486</b>	<b>-</b>
<b>Fund balances, end of year</b>	<b>\$ 989,491</b>	<b>\$ 764,849</b>	<b>\$ 769,842</b>	<b>\$ 4,993</b>

The accompanying notes are an integral part of these financial statements.



# CITY OF HASTINGS

## Library Special Revenue Fund Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Intergovernmental revenue:				
Local	\$ 791,000	\$ 1,280,484	\$ 1,001,921	\$ (278,563)
State	8,280	8,280	9,414	1,134
Charges for services	5,730	5,730	5,998	268
Fines and forfeitures	31,500	31,500	39,349	7,849
Interest	33,300	47,873	70,823	22,950
Other	1,515	1,515	3,349	1,834
Total revenues	871,325	1,375,382	1,130,854	(244,528)
<b>Expenditures</b>				
Recreation and culture:				
Library	926,116	1,286,935	1,000,761	(286,174)
Revenues over (under) expenditures	(54,791)	88,447	130,093	41,646
<b>Other financing sources (uses)</b>				
Transfers in	281,427	281,427	281,427	-
Net change in fund balances	226,636	369,874	411,520	41,646
Fund balance, beginning of year	1,688,417	1,688,417	1,688,417	-
<b>Fund balance, end of year</b>	<b>\$ 1,915,053</b>	<b>\$ 2,058,291</b>	<b>\$ 2,099,937</b>	<b>\$ 41,646</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF HASTINGS

## Statement of Net Assets Proprietary Funds

June 30, 2006

	<u>Business-Type Activities</u>		<u>Total</u>	<u>Governmental</u>
	<u>Water and</u>	<u>Business</u>	<u>Enterprise</u>	<u>Activities</u>
	<u>Sewer</u>	<u>Incubator</u>	<u>Funds</u>	<u>Internal</u>
				<u>Service Funds</u>
<b>Assets</b>				
Current assets:				
Cash and pooled investments	\$ 1,162,544	\$ 85,177	\$ 1,247,721	\$ 620,242
Restricted cash and investments	937,020	-	937,020	-
Receivables:			-	
Accounts	242,761	16,360	259,121	1,641
Special assessments	24,238	-	24,238	-
Due from other governmental units	-	-	-	6,366
Due from other funds	-	-	-	6,662
Inventory	70,436	-	70,436	-
Prepaid items	3,342	262	3,604	82,657
<b>Total current assets</b>	<u>2,440,341</u>	<u>101,799</u>	<u>2,542,140</u>	<u>717,568</u>
Non-current assets:				
Advance to other funds	418,814	-	418,814	24,583
Land	99,200	20,000	119,200	211,700
Construction in progress	162,651	-	162,651	-
Property, plant and equipment, net of accumulated depreciation	10,341,883	585,648	10,927,531	2,168,489
<b>Total non-current assets</b>	<u>11,022,548</u>	<u>605,648</u>	<u>11,628,196</u>	<u>2,404,772</u>
<b>Total assets</b>	<u>13,462,889</u>	<u>707,447</u>	<u>14,170,336</u>	<u>3,122,340</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	104,198	5,651	109,849	96,035
Accrued interest payable	20,994	-	20,994	7,240
Accrued payroll liabilities	7,289	279	7,568	7,368
Deposits	-	3,264	3,264	-
Compensated absences	22,903	433	23,336	151,955
Current portion of long-term debt	335,000	-	335,000	80,000
<b>Total current liabilities</b>	<u>490,384</u>	<u>9,627</u>	<u>500,011</u>	<u>342,598</u>
Long-term liabilities:				
Advance from other funds	-	72,533	72,533	346,281
Revenue bonds payable, net of current maturities	2,225,000	-	2,225,000	585,000
Unamortized discount on revenue bonds	(44,243)	-	(44,243)	-
<b>Total long-term liabilities</b>	<u>2,180,757</u>	<u>72,533</u>	<u>2,253,290</u>	<u>931,281</u>
<b>Total liabilities</b>	<u>2,671,141</u>	<u>82,160</u>	<u>2,753,301</u>	<u>1,273,879</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	8,043,734	605,648	8,649,382	1,715,189
Unrestricted	2,748,014	19,639	2,767,653	133,272
<b>Total net assets</b>	<u>\$ 10,791,748</u>	<u>\$ 625,287</u>	<u>\$ 11,417,035</u>	<u>\$ 1,848,461</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF HASTINGS

## Statement of Revenues, Expenses And Changes in Net Assets Proprietary Funds

For the Year Ended June 30, 2006

	<u>Business-type Activities</u>		<u>Total</u>	<u>Governmental</u>
	<u>Water and</u>	<u>Business</u>	<u>Enterprise</u>	<u>Activities</u>
	<u>Sewer</u>	<u>Incubator</u>	<u>Funds</u>	<u>Internal</u>
				<u>Service Funds</u>
<b>Operating revenues</b>				
Charges for services	\$ 1,977,200	\$ 14,882	\$ 1,992,082	\$ 1,903,302
Rentals	-	41,507	41,507	-
Intergovernmental - State	20,553	-	20,553	-
Total operating revenues	1,997,753	56,389	2,054,142	1,903,302
<b>Operating expenses</b>				
Personnel services	427,251	34,761	462,012	876,556
Professional and contractual services	140,099	3,121	143,220	227,522
Materials and supplies	138,399	2,205	140,604	229,719
Utilities	144,762	65,756	210,518	66,252
Repairs and maintenance	112,331	6,690	119,021	80,754
Insurance and bonds	-	-	-	74,471
Equipment rental	66,938	244	67,182	20,087
Depreciation	354,903	25,709	380,612	145,797
Administrative services	224,051	15,760	239,811	22,819
Bad debts	-	23,094	23,094	-
Miscellaneous	36,073	9,214	45,287	2,750
Total operating expenses	1,644,807	186,554	1,831,361	1,746,727
Operating income (loss)	352,946	(130,165)	222,781	156,575
<b>Nonoperating revenues (expenses)</b>				
Interest income	107,432	-	107,432	21,990
Gain on sale of assets	-	-	-	12,000
Bond issuance fees	4,186	-	4,186	-
Miscellaneous revenue	-	-	-	29,685
Interest expense	(168,919)	(4,553)	(173,472)	(52,236)
Total non-operating revenues (expenses)	(57,301)	(4,553)	(61,854)	11,439
Net income before transfers	295,645	(134,718)	160,927	168,014
<b>Transfers</b>				
Transfers out	(16,941)	-	(16,941)	-
Transfers in	-	129,762	129,762	-
Total transfers	(16,941)	129,762	112,821	-
Change in net assets	278,704	(4,956)	273,748	168,014
Net assets, beginning of year	10,513,044	630,243	11,143,287	1,680,447
<b>Net assets, end of year</b>	<u>\$ 10,791,748</u>	<u>\$ 625,287</u>	<u>\$ 11,417,035</u>	<u>\$ 1,848,461</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF HASTINGS

## Statement of Cash Flows Proprietary Funds

**For the Year Ended June 30, 2006**

	<b>Business-type Activities</b>		<b>Total</b>	<b>Governmental</b>
	<b>Water and</b>	<b>Business</b>	<b>Enterprise</b>	<b>Activities</b>
	<b>Sewer</b>	<b>Incubator</b>	<b>Funds</b>	<b>Internal</b>
				<b>Service Funds</b>
<b>Cash flows from operating activities</b>				
Cash received from customers	\$ 2,013,348	\$ 80,292	\$ 2,093,640	\$ -
Cash received from other funds	-	-	-	1,860,974
Cash payments to suppliers for goods and services	(748,551)	(127,669)	(876,220)	(683,646)
Cash payments to employees for services	(429,353)	(42,417)	(471,770)	(873,206)
Net cash provided by (used in) operating activities	835,444	(89,794)	745,650	304,122
<b>Cash flows from non-capital financing activities</b>				
Miscellaneous nonoperating revenue	-	-	-	29,686
Transfers from other funds	-	129,762	129,762	-
Transfers to other funds	(16,941)	-	(16,941)	-
Net cash provided by (used in) non-capital financing activities	(16,941)	129,762	112,821	29,686
<b>Cash flows from capital and related financing activities</b>				
Acquisitions of capital assets	(237,748)	-	(237,748)	(154,594)
Gain on sale of capital assets	-	-	-	12,000
Amortization on unamortized discount and deferred refunding costs	(16,309)	-	(16,309)	-
Proceeds from refunding bonds	2,385,000	-	2,385,000	-
Payments on refunded bonds	(2,505,000)	-	(2,505,000)	-
Principal paid on long-term debt	(165,000)	-	(165,000)	(75,000)
Interest and fiscal charges	(168,919)	(4,553)	(173,472)	(52,236)
Net cash provided by (used in) capital and related financing activities	(707,976)	(4,553)	(712,529)	(269,830)
<b>Cash flows from investing activities</b>				
Interest income	111,618	-	111,618	21,990
Net increase in cash and pooled investments	222,145	35,415	257,560	85,968
Cash and pooled investments, beginning of year	1,877,419	49,762	1,927,181	534,274
<b>Cash and pooled investments, end of year</b>	<b>\$ 2,099,564</b>	<b>\$ 85,177</b>	<b>\$ 2,184,741</b>	<b>\$ 620,242</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income (loss)	\$ 352,946	\$ (130,165)	\$ 222,781	\$ 156,575
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	354,903	25,709	380,612	145,797
Changes in assets and liabilities which provided (used) cash:				
Accounts receivable	44,342	20,639	64,981	(1,641)
Special assessments receivable	(24,238)	-	(24,238)	-
Due from other governmental units	-	-	-	(3,023)
Due from other funds	-	-	-	(6,662)
Inventory and prepaid items	9,850	(19)	9,831	(5,462)
Advance to other funds	33,672	-	33,672	(8,118)
Accounts payable	49,586	4,557	54,143	43,766
Accrued interest payable	20,994	-	20,994	7,089
Accrued payroll liabilities	2,827	(7,120)	(4,293)	(9,473)
Unearned revenue	(4,509)	-	(4,509)	-
Deposits	-	3,264	3,264	-
Compensated absences	(4,929)	(536)	(5,465)	12,823
Advance from other funds	-	(6,123)	(6,123)	(27,549)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 835,444</b>	<b>\$ (89,794)</b>	<b>\$ 745,650</b>	<b>\$ 304,122</b>

The accompanying notes are an integral part of these financial statements.

# **CITY OF HASTINGS**

## **Statement of Fiduciary Assets and Liabilities Agency Fund**

**June 30, 2006**

### **Assets**

Cash and pooled investments	<u>\$ 2,212</u>
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### **Liabilities**

Due to other governmental units	<u>\$ 2,212</u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Hastings (the “City”) was incorporated March 11, 1871, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, health and social services, recreation and cultural, public improvements, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles. The following is a summary of the more significant policies:

***The Reporting Entity***

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

***Discretely Presented Component Units***

Downtown Development Authority – The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, to encourage historical preservation, and to promote economic growth within the downtown district. The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Local Development Finance Authority and Brownfield Redevelopment Authority – The Local Development Finance Authority and Brownfield Redevelopment Authority were created to facilitate the implementation of plans relating to the identification and treatment of environmentally distressed areas to promote revitalization within the Brownfield Redevelopment zone. There is no activity in the current year for the Brownfield Redevelopment Authority. The members of the governing board of the Local Development Finance Authority and Brownfield Redevelopment Authority are appointed by the City Council. The budgets and expenditures of the Local Development Finance Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Local Development Finance Authority.

Complete financial statements for the component units are not separately prepared.

**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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***Joint Venture***

The City of Hastings has an equity investment in the Airport Commission (“the Commission”) (a joint venture as defined by GASB Statement No. 14). The Commission was formed with the Barry County Board of Commissioners through an agreement made in 1977. The Commission is run by a 5-member Board of Directors, consisting of 2 residents of Barry County appointed by the Barry County Board of Commissioners, 2 residents of the City of Hastings appointed by the Hastings City Council, and one member appointed by the other four. The Commission is responsible for acquisition of property, and constructing, operating, and maintaining airport facilities. Ownership of the property is vested in the City. It may exercise on behalf of the political subdivision by which it was created, all powers of each such political subdivision. It may not issue debt without approvals from the City and County. The City is designated as the agent for any federal or state airport aid.

The agreement requires that each governmental unit provide 50% of the net budget appropriation requirements and that financial record keeping be maintained by the County. During the current year, the City contributed approximately \$21,350 for its operations. The City of Hastings’ equity in this joint venture as of June 30, 2006 is \$399,354, which is recorded in the governmental activities of the City. The Commission is presented as a component unit in the County’s financial statements. The financial statements can be obtained by contacting Barry County, 220 West State, Hastings, MI 49058.

***Government-Wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the delinquent real property taxes are paid by the City to other units of government and the County is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and accrued employee benefit expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Library Fund* is utilized to account for the operations and activities related to the Library and the Library Capital Campaign.

The City reports the following major proprietary funds:

*Water Supply and Sewage Disposal System Fund* – This fund is used to account for the cost of providing water to City residents and collecting and treating wastewater. Revenues are chiefly from service charges to customers. These revenues are also used to pay principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

*Business Incubator Fund* – This fund is used to account for activities provided to private companies to enhance business growth in the City.



**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for revenue from specific revenue sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Permanent Fund* is used to record the activity of the legal trust for which the interest on the corpus provides funds for City operations.

The *Internal Service Funds* are used to account for major machinery and equipment purchases and maintenance, as well as management services provided to other departments of the City on a cost-reimbursement basis.

The *Tax Collection Agency Fund* is used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

***Budgets and Budgetary Accounting***

Budgets are adopted for general and special revenue funds on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency Funds.

**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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5. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2006. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendments to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
6. Budgets for expenditures are adopted at the functional level.
7. Budgeted amounts are as originally adopted, or as amended by the City Council.

***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

***Receivables***

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

***Inventory***

Inventory is valued at the lower of cost or market, on the first-in first-out basis.

***Prepaid Items***

The City incurred expenses prior to year-end for services that will be performed in the next fiscal year. In these situations, the City records an asset to reflect the investment in future services.

***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added beginning in 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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Depreciation on capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Water distribution system	67
Sewage disposal system	67
Buildings and building improvements	30 - 50
Land improvements	10 - 20
Machinery, equipment, and vehicles	5 - 10

***Long-term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Restricted Assets***

Restricted assets are those assets set aside as required by the Enterprise Fund revenue bonds. These bonds require amounts to be set aside for construction, principal, interest expense, operations and maintenance, and a bond reserve.

***Property Taxes***

City property taxes are attached as an enforceable lien on property as of July 1st. Taxes are levied July 1 and are due without penalty on or before August 10. These summer tax bills include the City's own property taxes and taxes billed on behalf of other districts within the City limits. Real property taxes not collected are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

***Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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***Compensated Absences***

It is the City's policy to permit employees to accumulate earned unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as it becomes due for payments (when the time is used or employment is terminated).

***Interfund Transactions***

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the City.

***Risk Management***

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

**2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS**

During the year ended June 30, 2006 the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

	<u><b>Total Appropriations</b></u>	<u><b>Amount of Expenditures</b></u>	<u><b>Budget Variance</b></u>
General Fund			
Public Safety	\$2,563,316	\$2,634,794	\$71,478
Police Training and Drug Awareness Fund			
Police Training	6,550	6,712	162

**3. DEFICIT NET ASSETS**

The Administrative Services Fund ended the year with a deficit unrestricted net assets of \$182,184. It is the City's intention to eliminate this deficit by generation of revenues in excess of expenditures in future years, and to file a deficit elimination plan update with the State of Michigan Department of Treasury.

**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**4. DEPOSITS AND INVESTMENTS**

The captions on the government-wide and fund statements relating to cash and cash equivalents and deposits are as follows:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and pooled investments	\$2,915,292	\$260,515	\$2,212	\$3,178,019
Restricted cash and investments	<u>2,846,877</u>	<u>-</u>	<u>-</u>	<u>2,846,877</u>
<b>Total</b>	<b><u>\$5,762,169</u></b>	<b><u>\$260,515</u></b>	<b><u>\$2,212</u></b>	<b><u>\$6,024,896</u></b>

Deposits and investments consist of the following at June 30, 2006:

Checking and savings accounts	\$ 376,886
Certificates of deposit	4,577,017
Petty cash	1,544
Investments	<u>1,069,449</u>
<b>Total</b>	<b><u>\$6,024,896</u></b>

These deposits are in four (4) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at cost. Interest is recorded when earned.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$3,734,630 of the City's bank balance of \$4,134,630 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Investments**

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
MBIA Class Fund	N/A	<b><u>\$1,069,449</u></b>	AAA/V1+

**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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***Investment Risk***

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified under “statutory authority” below. The City’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment identified above has no maturity date.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City’s specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in “statutory authority” below. The investment policy does not have specific limits in excess of state law on investment credit risk. The credit rating on the City’s investment is identified above.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk by limiting investments to the types of securities listed in the City’s investment policy and by pre-qualifying the financial institutions, broker/dealers, intermediaries, set forth in accordance with the City’s investment policy. Of the above mutual fund investments the District’s custodial credit risk exposure can not be determined because the mutual funds do not consist of specifically identifiable securities.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk. The City minimizes concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All investments held at year-end are reported above.

***Statutory Authority***

State statutes authorize the City to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**5. CAPITAL ASSETS**

Changes in capital assets for the year ending June 30, 2006, are as follows:

	<b>Balance July 1, 2005</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance June 30, 2006</b>
<b>Governmental activities</b>				
Capital assets, not being depreciated:				
Land	\$ 1,367,783	\$ -	\$ -	\$ 1,367,783
Construction in progress	158,338	379,997	(96,488)	441,847
Total capital assets, not being depreciated	1,526,121	379,997	(96,488)	1,809,630
Capital assets, being depreciated:				
Land improvements	639,935	901,751	-	1,541,686
Buildings and improvements	2,620,971	13,933	-	2,634,904
Machinery, vehicles and equipment	3,763,002	367,901	(238,817)	3,892,086
	7,023,908	1,283,585	(238,817)	8,068,676
Less accumulated depreciation for:				
Land improvements	59,191	42,626	-	101,817
Buildings and improvements	806,255	64,853	-	871,108
Machinery, vehicles and equipment	2,496,637	232,939	(190,511)	2,539,065
Total accumulated depreciation	3,362,083	340,418	(190,511)	3,511,990
Net capital assets, being depreciated	<b>3,661,825</b>	<b>943,167</b>	<b>(48,306)</b>	<b>4,556,686</b>
<b>Net capital assets - governmental activities</b>	<b>\$ 5,187,946</b>	<b>\$1,323,164</b>	<b>\$ (144,794)</b>	<b>\$ 6,366,316</b>
<b>Business-type activities</b>				
Capital assets not being depreciated:				
Land	\$ 119,200	\$ -	\$ -	\$ 119,200
Construction in progress	1,745	162,651	(1,745)	162,651
Total capital assets not being depreciated	120,945	162,651	(1,745)	281,851
Capital assets being depreciated:				
Water system	5,478,408	-	-	5,478,408
Sewer system	1,970,384	62,520	-	2,032,904
Buildings and improvements	8,801,983	-	-	8,801,983
Machinery and equipment	669,022	14,322	(573)	682,771
Total capital assets being depreciated	16,919,797	76,842	(573)	16,996,066
Less accumulated depreciation for:				
Water system	2,054,540	84,703	-	2,139,243
Sewer system	405,132	38,381	-	443,513
Buildings and improvements	2,987,434	240,587	-	3,228,021
Machinery and equipment	241,390	16,941	573	257,758
Total accumulated depreciation	5,688,496	380,612	(573)	6,068,535
Net capital assets being depreciated	11,231,301	(303,770)	-	10,927,531
<b>Net capital assets – business-type activities</b>	<b>\$ 11,352,246</b>	<b>\$ (141,119)</b>	<b>\$ (1,745)</b>	<b>\$ 11,209,382</b>

**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 20,559
Public safety	38,900
Public works	34,774
Recreation and cultural	82,774
Community and economic development	17,614
Internal service funds	<u>145,797</u>
Total depreciation expense – governmental activities	<u>\$340,418</u>
Business-type activities:	
Water and sewer	\$354,903
Business incubator	<u>25,709</u>
Total depreciation expense – business type activities	<u>\$380,612</u>

**6. INTERFUND TRANSFERS**

The composition of transfers for the year ended June 30, 2006, is as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 16,941	\$742,886
Library Fund	281,427	-
Nonmajor Funds	357,676	25,979
Enterprise Funds:		
Water and Sewer Fund	-	16,941
Business Incubator	<u>129,762</u>	<u>-</u>
<b>Total</b>	<b><u>\$785,806</u></b>	<b><u>\$785,806</u></b>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.



**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**7. INTERFUND RECEIVABLES AND PAYABLES**

	<b>Due From Other Funds</b>	<b>Due to Other Funds</b>
General Fund	\$ -	\$ 6,662
Administrative Services Internal Service Fund	6,662	-
Advances:		
General Fund	-	24,583
Water and Sewer	418,814	-
Business Incubator	-	72,533
Equipment Pool Internal Service Fund	24,583	295,090
Administrative Services Internal Service Fund	-	51,191
	<b><u>\$450,059</u></b>	<b><u>\$450,059</u></b>

Interfund balances primarily reflect loans made from funds with cash and cash equivalents to those funds requiring temporary cash flow needs.

**8. DEFINED BENEFIT PENSION PLAN**

***Municipal Employees Retirement System of Michigan***

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate ranges from 0% to 19.18% of annual covered payroll, depending on division. Employee contributions range from 0% to 6.4%. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adoption by the City.

For the year ended June 30, 2006 the City's annual pension cost for MERS of \$370,171 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment of 20% of the difference between assumed earnings and market value (5 year seniority) to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**Three-Year Trend Information**

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$318,795	100%	\$ -
2004	330,431	100%	-
2005	370,171	100%	-

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/03	\$7,978,180	\$10,833,739	\$2,855,559	74%	\$2,297,798	124%
12/31/04	8,204,231	11,576,559	3,372,328	71%	2,193,664	154%
12/31/05	8,441,080	12,273,095	3,832,015	69%	2,276,369	168%

**9. OTHER POST-EMPLOYMENT BENEFITS**

The City provides healthcare benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 38 retirees are eligible. Depending on the bargaining unit, employees hired after dates between 2003 through 2005 will not be eligible for post employment health benefits. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant for retirees before 1992. After 1992, the retirees are required to contribute 10 percent of the premium. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the fiscal year ended June 30, 2006, expenses relating to other post-employment benefits amounted to approximately \$293,000.

**10. LONG-TERM DEBT**

The following is a summary of debt transactions of the City for the year ended June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Installment purchase agreement payable through 2012 with interest at 4.95%	\$ 740,000	\$ -	\$ 75,000	\$ 665,000	\$ 80,000
Compensated absences	322,410	215,070	172,824	364,656	178,009
<b>Total governmental activities</b>	<b>\$ 1,062,410</b>	<b>\$ 215,070</b>	<b>\$ 247,824</b>	<b>\$ 1,029,656</b>	<b>\$ 258,009</b>

**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>Balance July 1, 2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2006</b>	<b>Due Within One Year</b>
<b>Business-type activities</b>					
1992 revenue bonds payable through 2007 with interest at 6.4%	\$ 340,000	\$ -	\$ 165,000	\$ 175,000	\$ 175,000
1997 revenue bonds, refunded in fiscal year 2006	2,505,000	-	2,505,000	-	-
2006 refunding revenue bonds payable through 2017 with interest varying from 3.8% to 4.0%	-	2,385,000	-	2,385,000	160,000
Total installment debt	2,845,000	2,385,000	2,670,000	2,560,000	335,000
Unamortized discount and deferred refunding costs	(27,934)	42,609	26,300	(44,243)	5,509
Compensated absences	28,801	23,430	28,895	23,336	23,336
<b>Total business-type activities</b>	<b>\$ 2,845,867</b>	<b>\$ 2,365,821</b>	<b>\$ 2,672,595</b>	<b>\$ 2,539,093</b>	<b>\$ 352,827</b>

The annual requirements, excluding compensated absences and unamortized discounts, to maturity on the total long-term obligations outstanding at June 30, 2006 are as follows:

	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2007	\$ 80,000	\$ 30,938	\$ 335,000	\$121,618
2008	85,000	26,854	185,000	88,470
2009	100,000	22,275	195,000	81,070
2010	100,000	17,325	200,000	73,270
2011	100,000	12,375	210,000	65,270
2012-2016	200,000	9,900	1,170,000	194,350
2017	-	-	265,000	10,070
	<b>\$665,000</b>	<b>\$119,667</b>	<b>\$2,560,000</b>	<b>\$634,118</b>

***Advance Refunding***

During fiscal year 2006, the City refunded \$2,505,000 of City of Hastings 1997 water/sewer revenue bonds to provide resources to purchase U.S. Government securities that were placed in an escrow fund for the purpose of generating resources for all future debt service payments on \$2,505,000 on refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The refunding resulted in a savings of \$210,750 and an economic gain of \$117,754.

**CITY OF HASTINGS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**11. LITIGATION**

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

**12. COMMITMENT**

At June 30, 2006, the City had outstanding contracts totaling approximately \$3,815,000 for construction of the Library.

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# CITY OF HASTINGS

## Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2006

	Special Revenue				Permanent Fund	
	Major Streets	Local Streets	Drug Enforcement	Police Training and Drug Awareness	Library Endowment	Totals
<b>Assets</b>						
Cash and pooled investments	\$ 84,528	\$ 135,170	\$ 39,124	\$ 10,170	\$ -	\$ 268,992
Receivables:						
Special assessments	-	57,885	-	-	-	57,885
Due from other governmental units	157,739	24,345	-	-	-	182,084
Inventory	4,289	1,430	-	-	-	5,719
<b>Total assets</b>	<u>\$ 246,556</u>	<u>\$ 218,830</u>	<u>\$ 39,124</u>	<u>\$ 10,170</u>	<u>\$ -</u>	<u>\$ 514,680</u>
<b>Liabilities and fund balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 66,143	\$ 86,648	\$ -	\$ -	\$ -	\$ 152,791
Accrued liabilities	232	422	-	-	-	654
Deferred revenue	-	57,885	-	-	-	57,885
<b>Total liabilities</b>	<u>66,375</u>	<u>144,955</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>211,330</u>
<b>Fund balances</b>						
Reserved for inventory	4,289	1,430	-	-	-	5,719
Unreserved - undesignated	175,892	72,445	39,124	10,170	-	297,631
<b>Total fund balances</b>	<u>180,181</u>	<u>73,875</u>	<u>39,124</u>	<u>10,170</u>	<u>-</u>	<u>303,350</u>
<b>Total liabilities and fund balances</b>	<u>\$ 246,556</u>	<u>\$ 218,830</u>	<u>\$ 39,124</u>	<u>\$ 10,170</u>	<u>\$ -</u>	<u>\$ 514,680</u>

# CITY OF HASTINGS

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds

For the Year Ended June 30, 2006

	Special Revenue				Permanent Fund	
	Major Streets	Local Streets	Drug Enforcement	Police Training and Drug Awareness	Library Endowment	Totals
<b>Revenues</b>						
Intergovernmental revenue:						
Federal	\$ 98,526	\$ -	\$ -	\$ -	\$ -	\$ 98,526
State	358,607	170,507	-	3,165	-	532,279
Local	-	-	-	2,543	-	2,543
Charges for services	-	26,146	-	-	-	26,146
Special assessments	-	8,591	-	-	-	8,591
Interest	4,791	1,725	838	370	10,495	18,219
Other	4,237	-	-	450	-	4,687
Total revenues	466,161	206,969	838	6,528	10,495	690,991
<b>Expenditures</b>						
Current:						
Public works	353,810	488,129	-	-	-	841,939
Public safety	-	-	-	6,712	-	6,712
Recreation and cultural	-	-	-	-	329,500	329,500
Total expenditures	353,810	488,129	-	6,712	329,500	1,178,151
Revenues over (under) expenditures	112,351	(281,160)	838	(184)	(319,005)	(487,160)
<b>Other financing sources (uses)</b>						
Transfers in	-	354,136	-	3,540	-	357,676
Transfers (out)	(25,979)	-	-	-	-	(25,979)
Total other financing sources (uses)	(25,979)	354,136	-	3,540	-	331,697
Net change in fund balances	86,372	72,976	838	3,356	(319,005)	(155,463)
Fund balances, beginning of year	93,809	899	38,286	6,814	319,005	458,813
<b>Fund balances (deficit), end of year</b>	<b>\$ 180,181</b>	<b>\$ 73,875</b>	<b>\$ 39,124</b>	<b>\$ 10,170</b>	<b>\$ -</b>	<b>\$ 303,350</b>

# CITY OF HASTINGS

## Major Streets Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Intergovernmental revenue:				
Federal	\$ 201,736	\$ 310,736	\$ 98,526	\$ (212,210)
State	370,520	370,520	358,607	(11,913)
Interest	2,300	2,300	4,791	2,491
Other	-	-	4,237	4,237
Total revenues	574,556	683,556	466,161	(217,395)
<b>Expenditures</b>				
Public works:				
Construction	282,470	282,470	15,994	(266,476)
Routine maintenance	383,890	383,890	337,816	(46,074)
Total expenditures	666,360	666,360	353,810	(312,550)
Revenues over (under) expenditures	(91,804)	17,196	112,351	95,155
<b>Other financing sources (uses)</b>				
Transfers (out)	(25,979)	(25,979)	(25,979)	-
Net change in fund balances	(117,783)	(8,783)	86,372	95,155
Fund balance, beginning of year	93,809	93,809	93,809	-
<b>Fund balance, end of year</b>	<b>\$ (23,974)</b>	<b>\$ 85,026</b>	<b>\$ 180,181</b>	<b>\$ 95,155</b>

# CITY OF HASTINGS

## Local Streets Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Intergovernmental revenue:				
State	\$ 262,000	\$ 287,000	\$ 170,507	\$ (116,493)
Charges for services	-	26,146	26,146	-
Special assessments	-	5,883	8,591	2,708
Interest	-	1,577	1,725	148
Other revenue	3,000	3,000	-	(3,000)
Total revenues	265,000	323,606	206,969	(116,637)
<b>Expenditures</b>				
Public works:				
Construction	176,439	286,004	117,738	(168,266)
Routine maintenance	412,638	412,638	370,391	(42,247)
Total expenditures	589,077	698,642	488,129	(210,513)
Revenues over (under) expenditures	(324,077)	(375,036)	(281,160)	93,876
<b>Other financing sources</b>				
Transfers in	324,077	374,136	354,136	(20,000)
Net change in fund balances	-	(900)	72,976	73,876
Fund balance, beginning of year	899	899	899	-
<b>Fund balance, end of year</b>	<b>\$ 899</b>	<b>\$ (1)</b>	<b>\$ 73,875</b>	<b>\$ 73,876</b>



# CITY OF HASTINGS

## Drug Enforcement Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Other revenue	\$ 325	\$ 325	\$ 838	\$ 513
<b>Expenditures</b>				
Public safety	-	-	-	-
Net change in fund balances	325	325	838	513
Fund balance, beginning of year	38,286	38,286	38,286	-
<b>Fund balance, end of year</b>	<u>\$ 38,611</u>	<u>\$ 38,611</u>	<u>\$ 39,124</u>	<u>\$ 513</u>

# CITY OF HASTINGS

## Police Training and Drug Awareness Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Intergovernmental:				
State	\$ 2,500	\$ 2,500	\$ 3,165	\$ 665
Local	500	500	2,543	2,043
Interest	10	10	370	360
Other revenue	-	-	450	450
	3,010	3,010	6,528	3,518
<b>Expenditures</b>				
Public safety:				
Police training	6,550	6,550	6,712	162
Revenues over expenditures	(3,540)	(3,540)	(184)	3,356
<b>Other financing sources</b>				
Transfers in	3,540	3,540	3,540	-
Net change in fund balances	-	-	3,356	3,356
Fund balance, beginning of year	6,814	6,814	6,814	-
<b>Fund balance, end of year</b>	<u>\$ 6,814</u>	<u>\$ 6,814</u>	<u>\$ 10,170</u>	<u>\$ 3,356</u>

# CITY OF HASTINGS

## Combining Statement of Net Assets Internal Service Funds

June 30, 2006

	Equipment Pool	Administrative Services	Total
<b>Assets</b>			
Current assets:			
Cash and pooled investments	\$ 590,667	\$ 29,575	\$ 620,242
Accounts receivable	-	1,641	1,641
Due from other funds	-	6,662	6,662
Prepaid items	2,053	80,604	82,657
Due from other governmental units	6,366	-	6,366
<b>Total current assets</b>	599,086	118,482	717,568
Non-current assets:			
Advance to other funds	24,583	-	24,583
Land	59,700	152,000	211,700
Property, plant and equipment, net of accumulated depreciation	876,979	1,291,510	2,168,489
<b>Total non-current assets</b>	961,262	1,443,510	2,404,772
<b>Total assets</b>	1,560,348	1,561,992	3,122,340
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	5,434	90,601	96,035
Accrued interest payable	-	7,240	7,240
Accrued payroll liabilities	437	6,931	7,368
Compensated absences	7,252	144,703	151,955
Current portion of long-term debt	-	80,000	80,000
<b>Total current liabilities</b>	13,123	329,475	342,598
Long-term liabilities			
Advance from other funds	295,090	51,191	346,281
Long-term debt	-	585,000	585,000
<b>Total long-term liabilities</b>	295,090	636,191	931,281
<b>Total liabilities</b>	308,213	965,666	1,273,879
<b>Net assets</b>			
Invested in capital assets, net of related debt	936,679	778,510	1,715,189
Unrestricted	315,456	(182,184)	133,272
<b>Total net assets</b>	\$ 1,252,135	\$ 596,326	\$ 1,848,461

# CITY OF HASTINGS

## Combining Statement of Revenues, Expenses and Changes in Net Assets Internal Service Funds

For the Year Ended June 30, 2006

	Equipment Pool	Administrative Services	Total
<b>Operating revenues</b>			
Charges for services	\$ 524,653	\$ 1,378,649	\$ 1,903,302
<b>Operating expenses</b>			
Personnel services	55,374	821,182	876,556
Professional and contractual services	-	227,522	227,522
Materials and supplies	172,585	57,134	229,719
Utilities	22,597	43,655	66,252
Repairs and maintenance	56,061	24,693	80,754
Insurance and bonds	19,164	55,307	74,471
Equipment rental	4,459	15,628	20,087
Depreciation	89,449	56,348	145,797
Administrative services	22,819	-	22,819
Miscellaneous	989	1,761	2,750
Total operating expenses	443,497	1,303,230	1,746,727
Operating income (loss)	81,156	75,419	156,575
<b>Nonoperating revenues (expenses)</b>			
Interest income	25,149	(3,159)	21,990
Gain on sale of capital assets	12,000	-	12,000
Miscellaneous	77	29,608	29,685
Interest expense	(9,943)	(42,293)	(52,236)
Total non-operating revenues (expenses)	27,283	(15,844)	11,439
Change in net assets	108,439	59,575	168,014
Net assets, beginning of year	1,143,696	536,751	1,680,447
<b>Net assets, end of year</b>	<u>\$ 1,252,135</u>	<u>\$ 596,326</u>	<u>\$ 1,848,461</u>

# CITY OF HASTINGS

## Combining Statement of Cash Flows Internal Service Funds

For the Year Ended June 30, 2006

	Equipment Pool	Administrative Services	Total
<b>Cash flows from operating activities</b>			
Cash received from other funds	\$ 449,624	\$ 1,411,350	\$ 1,860,974
Cash payments to suppliers for goods and services	(303,973)	(379,673)	(683,646)
Cash payments to employees for services	(55,290)	(817,916)	(873,206)
Net cash provided by operating activities	90,361	213,761	304,122
<b>Cash flows from non-capital financing activities</b>			
Miscellaneous nonoperating revenue	78	29,608	29,686
<b>Cash flows from capital and related financing activities</b>			
Acquisitions of capital assets	(106,378)	(48,216)	(154,594)
Gain on sale of capital assets	12,000	-	12,000
Principal paid on long-term debt	-	(75,000)	(75,000)
Interest and fiscal charges	(9,943)	(42,293)	(52,236)
Net cash provided by (used in) capital and related financing activities	(104,321)	(165,509)	(269,830)
<b>Cash flows from investing activities</b>			
Interest income	25,149	(3,159)	21,990
Net increase in cash and pooled investments	11,267	74,701	85,968
Cash and pooled investments, beginning of year	579,400	(45,126)	534,274
<b>Cash and pooled investments, end of year</b>	<u>\$ 590,667</u>	<u>\$ 29,575</u>	<u>\$ 620,242</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating income	\$ 81,156	\$ 75,419	\$ 156,575
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	89,449	56,348	145,797
Changes in assets and liabilities which provided (used ) cash:			
Accounts receivable	-	(1,641)	(1,641)
Prepaid items	(195)	(5,267)	(5,462)
Due from other governmental units	(3,023)	-	(3,023)
Due from other funds	-	(6,662)	(6,662)
Advance to other funds	(8,118)	-	(8,118)
Accounts payable	(1,930)	45,696	43,766
Accrued interest payable	(151)	7,240	7,089
Advance from other funds	(66,911)	39,362	(27,549)
Accrued payroll liabilities	84	(9,557)	(9,473)
Compensated absences	-	12,823	12,823
<b>Net cash provided by operating activities</b>	<u>\$ 90,361</u>	<u>\$ 213,761</u>	<u>\$ 304,122</u>

# CITY OF HASTINGS

## Downtown Development Authority Balance Sheet / Statement of Net Assets

June 30, 2006

	Operating Fund	Adjustments	Statement of Net Assets
<b>Assets</b>			
Cash	\$ 204,367	\$ -	\$ 204,367
Accounts receivable	33,211	-	33,211
<b>Total assets</b>	<u>\$ 237,578</u>	-	237,578
<b>Liabilities</b>			
Accounts payable	\$ 144,625	-	144,625
<b>Fund balance</b>			
Unreserved - undesignated	92,953	(92,953)	
<b>Total liabilities and fund balance</b>	<u>\$ 237,578</u>	(237,578)	
<b>Net assets</b>			
Unrestricted		92,953	92,953
<b>Total net assets</b>		<u>\$ 92,953</u>	<u>\$ 92,953</u>

# CITY OF HASTINGS

## Downtown Development Authority Statement of Activities and Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2006

	Operating Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Intergovernmental:			
Federal	\$ 260,000	\$ -	\$ 260,000
Taxes	451,697	-	451,697
Interest	10,838	-	10,838
Other	33,861	-	33,861
Total revenues	756,396	-	756,396
<b>Expenditures/expenses</b>			
Transfer to primary government	222,167		222,167
Capital outlay	777,998	-	777,998
Other	4,696	-	4,696
Total expenditures/expenses	1,004,861	-	1,004,861
Revenues over (under) expenditures	(248,465)	248,465	
Changes in net assets			(248,465)
Fund balances/net assets, beginning of year	341,418		341,418
<b>Fund balances/net assets, end of year</b>	<u>\$ 92,953</u>		<u>\$ 92,953</u>

# CITY OF HASTINGS

## Local Development Finance Authority Balance Sheet / Statement of Net Assets

June 30, 2006

	Operating Fund	Adjustments	Statement of Net Assets
<b>Assets</b>			
Cash	<u>\$ 56,148</u>	\$ -	<u>\$ 56,148</u>
<b>Liabilities</b>			
Accounts payable	\$ 865	<u>-</u>	<u>865</u>
<b>Fund balance</b>			
Unreserved - undesignated	<u>55,283</u>	<u>(55,283)</u>	
<b>Total liabilities and fund balance</b>	<u>\$ 56,148</u>	<u>(56,148)</u>	
<b>Net assets</b>			
Unrestricted		<u>55,283</u>	<u>55,283</u>
<b>Total net assets</b>		<u>\$ 55,283</u>	<u>\$ 55,283</u>



# CITY OF HASTINGS

## Local Development Finance Authority Statement of Activities and Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2006

	Operating Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Intergovernmental:			
Federal	\$ -	\$ -	\$ -
Taxes	12,310	-	12,310
Interest	2,235	-	2,235
Other	-	-	-
<b>Total revenues</b>	14,545	-	14,545
<b>Expenditures/expenses</b>			
Capital outlay	2,664	-	2,664
Revenues over (under) expenditures	11,881	(11,881)	
Changes in net assets			11,881
Fund balances/net assets, beginning of year	43,402		43,402
<b>Fund balances/net assets, end of year</b>	<u>\$ 55,283</u>		<u>\$ 55,283</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

September 8, 2006

Honorable Mayor and  
Members of the City Council  
City of Hastings, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hastings, Michigan, as of and for the year ended June 30, 2006 which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hastings, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hastings, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



# REHMANN ROBSON

*Certified Public Accountants*

*A member of* THE REHMANN GROUP

An Independent Member of Baker Tilly International

September 8, 2006

Honorable Mayor and Members  
of the City Council  
City of Hastings, Michigan

In planning and performing our audit of the financial statements of the City of Hastings for the year ended June 30, 2006, we considered the City's internal control to determine our auditing procedures for the purpose of expressing an opinion of the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated September 8, 2006 on the financial statements of the City of Hastings.

We will review the status of these comments during our next audit engagement. We have already discussed these comments with various personnel, and we will be pleased to discuss it in further detail at your convenience, perform any additional study of these matters, or to assist management in implementing the recommendations.

Our comments are summarized as follows:

## **INDEPENDENT REVIEW OF TRANSACTIONS**

During our audit, we noted that certain accounting functions are not routinely reviewed by an independent administrator. For example, credit memos, adjustments to bills, and journal entries are only seen by the employee performing the task. We recommend that the City enhance its internal control by requiring the Finance Director or other administrator to review and initial each of these types of transactions in the future.

## **SEGREGATION OF DUTIES**

An essential component of internal control is the segregation of the authorization, record-keeping, and custody functions. This minimizes the opportunity for any one employee to perpetrate and conceal fraudulent activity and maximizes the opportunity to identify errors.

Cash handling is inherently risky; therefore appropriate controls should be implemented over the collection process. We noted that one employee is submitting the deposit to the bank as well as performing the bank reconciliation. This creates an opportunity for errors or misappropriation to go unnoticed. Strengthening this control would be both simple and valuable to the City. We recommend that separate employees perform these functions in the future.

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We would like to thank the staff of the City for their assistance and cooperation during the audit. We look forward to working with you on future engagements.

This information is intended solely for the use of the City Council and management of the City of Hastings and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.